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Accession Number

01905850

AuthorFrischmann, Peter J. Kimmel, Paul D. Warfield, Terry D.**Title**

Innovation in preferred stock: Current developments and implications for financial reporting.

Source

Accounting Horizons. 13(3): 201-218. 1999 Sep. [Charts, References]

Subject HeadingsStudiesPreferred stockFinancial reportingTrendsStatistical analysisImpact analysis**Classification Codes**

United States [9190]. Experimental, theoretical treatment [9130].

Investment analysis [3400]. Accounting policies & procedures [4120].

Geographic Location

US.

Abstract

A significant innovation in preferred stock securities issued over the 1993-1996 period is investigated. Trends in preferred stock use which indicate that the introduction of a preferred stock variant, trust preferred securities (TPS), is changing the landscape of corporate balance sheets with an increasing number of companies reporting securities in the "mezzanine" section of the balance sheet are documented. Referred to by many as the "Holy Grail" of financial instruments, TPS are treated as debt for tax purposes, but not for financial reporting or debt-rating purposes. Since their introduction in late 1993, they have quickly become the primary variant of new preferred stock issues, representing the majority of all new issues of preferred stock. This trend in preferred stock issues is documented, the resulting financial reporting effects of the new security are discussed, the motivations for this trend are identified, and a new FASB proposal that addresses these and other redeemable preferred securities are evaluated.

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Accession Number

01913534

Author

[Hingston, Roy.](#)

Title

Investing in trust preferred securities.

Source

America's Community Banker. 8(10): 36-37. 1999 Oct.

Subject Headings

[Community banks](#)

[Bank assets](#)

[Return on investment](#)

[Interest rate risk](#)

[Trusts](#)

[Holding companies](#)

Company Name

Chase Manhattan Bank (DUNS: 00-698-1815). Citigroup Inc. United Community Bancshares Inc-St Paul MN.

Classification Codes

Financial services industry [8100]. Investment analysis [3400]. United States [9190].

Geographic Location

US.

Abstract

Chase Manhattan has issued a floating-rate trust preferred which offers an adjustable rate with the coupon floating quarterly at 3-month LIBOR plus 62.5 basis points. The issue is offered at a discount to yield an effective rate of LIBOR plus 100 basis points. A trust preferred security is a hybrid asset with some characteristics of preferred stock and some features of a bond. In terms of credit risk, the trust preferred security is issued by a holding company, not a bank; and, therefore, it will have credit risk exposure like any corporate bond with similar ratings. From a regulator's point of view, a trust preferred security is much like deeply subordinated corporate debt securities. Additional scrutiny will be paid to any special features such as calls, extensions, and the potential for deferred dividend or interest payments.

Full Text

Looking for higher returns? Willing to do a little due diligence? Consider the possibility of earning a fixed rate of 8 percent or even 9 percent. If you are looking for an adjustable or



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Accession Number

01755603

Author[Howe, John S.](#) [Lin, Ji-Chai](#), [Singh, Ajai K.](#)**Title**

Clientele effects and cross-security market making: Evidence from calls of convertible preferred securities.

Source

Financial Management. 27(4): 41-52. 1998 Winter. [Charts, Equations, References]

Subject Headings[Studies](#)[Convertibles](#)[Asked price](#)[Spread](#)[Stock prices](#)[Rates of return](#)[Effects](#)[Statistical analysis](#)[Conversion](#)**Classification Codes**

United States [9190]. Experimental, theoretical treatment [9130].

Investment analysis [3400].

Geographic Location

US.

Abstract

Trading activity, bid-ask spreads, and potential arbitrage opportunities for market makers in the period around conversion-forcing calls of convertible preferred securities are examined. An increased turnover in the called convertible preferred stock, which is consistent with a clientele effect, is found. A decrease in the average bid-ask spread of the called convertible preferred and the underlying common stock is also found. This suggests increased liquidity in the post-announcement period. It is argued that the liquidity improvement is a consequence of profitable cross-security trading opportunities.

Full Text

Headnote:

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Page 1 of 5

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Accession Number

01216359

Author[Crain, John L. Jackson, Gisele.](#)**Title**Monthly income **preferred securities**: A new hybrid that combines the best of equity and debt.**Source**

The Cpa Journal. 66(5): 68-71. 1996 May. [Charts]

Subject Headings[Advantages](#)[Disadvantages](#)[Preferred stock](#)[Corporate debt](#)[Manycompanies](#)[Limited liability companies](#)[Financial planning](#)**Classification Codes**

Investment analysis [3400]. United States [9190].

Geographic Location

US.

Abstract

Monthly income **preferred securities** (MIPS) are a new type of security that appears to deliver the best characteristics of both equity and debt, effectively allowing issuers to deduct dividend payments for tax purposes and yet classify the security as equity for financial planning purposes. MIPS are treated as debt for tax purposes and **preferred equity** for financial reporting purposes. Technically, MIPS are shares of **preferred stock** issued by a special purpose foreign or domestic limited life company (LLC). The LLC, in turn, is wholly owned by the US parent corporation. The advantages of MIPS for issuing corporations are obvious. The security combines the traditional benefits attributed to equity capital with the tax-deductible structure normally reserved for debt financing. Though MIPS have many advantages, they do have some negative features. For example, MIPS do not possess the same level of investment security as most corporate bonds. From a creditor standpoint, this simply means that MIPS are generally subordinated to all of the parent corporation's debt, making MIPS more risky.

Full Text

U.S. companies are selling a new type of security that appears to deliver the best characteristics

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Page 1 of 4

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Accession Number

01133027

AuthorPerlmuth, Lyn.**Title**

Wriggling out of preferred.

Source

Institutional Investor. 29(11): 35-36. 1995 Nov. [Charts]

Subject HeadingsSwap arrangementsPreferred stockDerivativesTax benefitsDebt financing**Company Name**

RJR Nabisco Holdings Corp (DUNS: 36-061-5868)

Classification Codes

United States [9190]. Institutional taxation [4210]. Capital & debt management [3100]. Investment analysis [3400].

Geographic Location

US.

Abstract

The \$1.25 billion **preferred stock** exchange by RJR Nabisco Holdings Corp. this summer has paved the way for a spate of such swaps by companies anxious to rid themselves of expensive fixed-rate perpetual **preferred stock** and replace it with tax-deductible **securities**. The exchanges allow an issuer to replace costly **preferred stock** with a security whose interest payments are tax-deductible, unlike **preferred dividends**. Two different sorts of instruments have been used in exchanges, both offspring of last year's monthly income **preferred securities**. One version is Merrill Lynch & Co.'s trust-originated **preferred securities** (Topps), which has a clone in Goldman, Sachs & Co.'s quarterly income **preferred securities** (Quips). The other 2nd-generation structure is a straight debt security issued directly by a corporation or through a partnership structure - dubbed **quarterly income capital securities** (Quics) by Lehman Brothers and **quarterly income debt securities** (Quids) by Goldman Sachs. The key to any successful exchange is reaching the retail **preferred holder** and making the swap - which is taxable to the investor - sufficiently attractive.

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